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Ohio Shows the Way on Death Tax Repeal

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Ohio Gov. John Kasich made good on a major campaign promise Thursday, killing the state's estate tax in the process of enacting the 2012-13 budget. He also managed to kill off an \$8 billion deficit without raising taxes -- a model for fiscally squeezed states nationwide.

The end of the death tax, which goes into effect on Jan. 1, 2013, will help stop the hemorrhaging of small businesses and jobs from the Buckeye State. Ohioans had suffered long enough with the levy on inheritances, with a 6% tax on personal and business assets above the \$338,333 exemption, up to \$500,000, and a 7% tax on assets above \$500,000. The death tax was a major reason that business, jobs and capital have fled the state.

Ohio's nearly 200,000 small businesses employ some 2.3 million people -- about half the civilian labor force -- and support annual payrolls exceeding \$77 billion. But businesses and jobs have been leaving Ohio for years, many to the 28 states without a death tax.

The stampede for the exits comes as no surprise: Dying in Ohio was expensive. When federal (35% on all assets exceeding \$5 million) and state taxes are combined, an Ohio family with a successful business could lose up to 40% of everything they had worked for.

While some opponents of repeal defend the death tax on the grounds that the state, like the federal government, needs the revenue, the truth is it yielded little revenue -- around 2% of the average local jurisdiction's revenues in Ohio, less than two-tenths of 1% for Columbus, and around 1% for Washington.

What estate taxes do produce is flight. Business owners flee high-tax states for low-tax or no-tax states, and wealthy people dodge the entire matter by hiring expensive lawyers who establish trusts, foundations

and other devices that protect them from the tax man.

The owners of family businesses and family farms typically can't afford such games. For all practical purposes, they're cash-poor, with most of their capital -- and net worth -- tied up in land, buildings, equipment, inventory and payroll.

The story of Dave Johnson -- president of the 100-year-old, fourth-generation family-owned business, Summitville Tiles, Inc. (a ceramic tile and brick manufacturer whose products festoon both the roof of the White House and the floors of McDonald's restaurants around the world) -- is typical.

Mr. Johnson, like many other small to mid-sized manufacturers, struggles to keep his business competitive in the face of the construction-industry meltdown. It hasn't been easy. And the estate tax is another worry. If he didn't have to contend with it, he could invest in more machinery, technology and employees -- confident that the business would endure into the next generation.

It's much the same elsewhere. A 2008 study by the Connecticut Department of Revenue Services, for example, named the estate tax the primary reason wealthy residents left the state and, in many cases, took their businesses with them. The study also showed, if further confirmation were needed, that the economies of states without estate taxes grew 50% faster, and created nearly twice as many jobs, than states with death taxes.

Against this backdrop, a two-year volunteer grass-roots campaign took hold in Ohio, garnering 85,000 petition signers for repeal of the estate tax and uniting a coalition that called on Ohio lawmakers to end the destructive tax. With this support and a state legislature committed to increasing jobs and local revenues over the long haul, the failed status quo was defeated.

Not surprisingly, public officials in some of Ohio's wealthiest cities were the most vocal

opponents of repeal. Because a portion of Ohio's estate tax revenue goes to the locality where the decedent lived, wealthier jurisdictions received the bulk of the revenue. The estate tax might seem a boon for rich communities that want a new park or pool, but it offered little to poorer jurisdictions.

What most of the critics don't understand is that repeal of the estate tax ultimately means more tax dollars, not fewer. A 2009 Duquesne University study found that state and local governments lost some \$3 in non-estate tax revenues for every \$1 increase in federal estate tax revenue. Overall, the study calculated, eliminating the federal estate tax would boost state and local tax revenues by approximately \$9.3 billion annually. With Ohio business owners now able to focus their energy and resources on growth and success, rather than on the survival of their businesses after they die, we can expect them to invest more money in those 200,000 businesses, hire more workers, and increase purchases -- all of which will help increase the tax base.

Ohio's repeal of its estate tax, after nearly 120 years, may not lead to an avalanche of repeal activities around the country, but it's already having a positive effect. Last month, for example, Maine lawmakers doubled their estate tax exemption to \$2 million from \$1 million. Oregon lawmakers rejected a proposal to increase their estate tax, as did North Carolina. Momentum is moving in the right direction.

State governments may need tax revenue, but they don't need taxes that destroy wealth and drive away job-creating business owners.

Mr. Batchelder is speaker of the Ohio House of Representatives. Mr. Boyle is the co-founder of Citizens United to End Ohio's Estate Tax. Mr. Patten is president of the American Family Business Institute in Washington, D.C.

Citizens United to End Ohio's Estate Tax

To learn about our successful campaign, contact: Ron Alban (rcalban@alban-invest.com), Jack Boyle (jackboyle@ohioprosperityinitiative.org), or Dan Regenold (dregenold@frameusa.com).

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